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Dominican Republic

Tobacco and Products

Annual

2004

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Report Highlights:
Data for 2003 show production of 10,200 metric tons, down from 12,600 metric tons in 2002. Production is expected to remain steady at 10,300 metric tons in 2004. Preliminary data show the output of handmade cigars in 2003 at 246 million units, up from 195 million in 2002. U.S. tobacco exports to the Dominican Republic surpassed US$63 million in 2003, positioning among the top five importers of U.S. tobacco.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Santo Domingo [DR1]
[DR]

Executive Summary

Preliminary data for 2003 from the Dominican Tobacco Institute (INTABACO) show minimal increases in acreage and production levels since last year. Based on the preliminary numbers for 2003, confirmed by industry sources, we estimate production for dark air and sun-cured tobacco to 10,200 metric tons, with a similar tobacco output of 10,300 metric tons in 2004. Flue cured tobacco is no longer produced and burley production is minimal.

The number of cigar factories operating in the country processing tobacco into cigars continued to decline in 2003, however, production remains strong. Preliminary numbers show the total output of handmade cigars in 2003 of 243 million units, up from 192 million in 2002. Cigarette consumption, which averaged about 4 billion units in 2002, has declined to 3.46 billion units. Although the two cigarette producers anticipated some growth in 2003, in response to new marketing strategies and ad campaigns, consumption of cigarettes will likely continue to decline gradually.

The Dominican Republic continues to be one of the largest importers of U.S tobacco, which is used for raw processing and filler for cigar production. However, this tobacco is not reported as imports in official statistics, since it does not officially enter the country. Exports in 2004 are anticipated to remain at 2003 levels. Although not included in statistics, free trade zone operations show exports in 2003 of 4,345 metric tons, with a value of US$47.5 million, which is mostly high-quality scrap tobacco from cigar production. Principal export destinations are the United States and Puerto Rico.

Dominican cigar exports also increased in total value and in unit price. The Dominican Republic imports U.S. tobacco into its free trade zones and re-exports cigars to United States. U.S. tobacco exports to the Dominican Republic surpassed US$63 million in CY 2003, positioning the Dominican Republic among the top-five importers of U.S. tobacco. Again, however, this data is not reported in official statistics, since it does not officially enter the country.

Industry contacts indicate that stocks of dark tobacco have been reduced, as a result of a government efforts to discard deteriorated stocks carried over for previous and from exports of lower-quality tobacco.

Production

Most information on tobacco production in the Dominican Republic is obtained from the Dominican Tobacco Institute (INTABACO), the government institution that regulates and controls production. Almost all tobacco produced in the Dominican Republic is dark air and sun cured. Within this category there are three distinctive types: About 20 percent is "Piloto", which is used for blending and as a source of flavor and aroma; 48 percent is "Amarillo Parado", used as filler; and a dark type called "Chago Diaz", which is also used as a source of flavor and aroma. In addition, there are some small quantities of wrapper grown for cigars and burley for cigarette manufacture.

The 2003 production numbers show a minimal increase in acreage and total output above previous estimates at 10,200 MT. The 2004 report from INTABACO, covering 2003 data, is not yet finalized. However, industry sources estimate that, after concluding the planting season for 2004, production will be 10,300 MT, slightly above last year.

Dark air and sun-cured production experienced astonishing growth in the latter half of the nineties, when the cigar boom pushed up tobacco prices sharply in the face of limited supplies. This encouraged local producers to increase acreage almost five-fold and production levels continued expanding, even after the cigar boom ended in 1998. Dry weight production surpassed 30,000 metric tons (MT), which far exceeded demand from local manufacturers and cigar producing operations inside and outside the free trade zones. In addition, major distortions developed at all levels of the tobacco distribution channels. Government intervention, through INTABACO, limited production areas and acreage and forced production to levels more in line with domestic demand.

In addition to the dark air and sun cured type tobaccos, there are also two types of “blond” tobacco that were traditionally produced in the Dominican Republic for cigarette production. Flue-cured or Virginia and Burley tobacco were grown and used exclusively for cigarette manufacturing for local consumption. The elimination of import restrictions of this type of product in recent years and the prevailing low international tobacco prices for these types has made imports more attractive to cigarette manufacturers. On the farmer’s side, the increased input costs have made it impossible for them to compete with imported Virginia or flue-cured tobaccos. As a result, flue cured tobacco production ended in 2000-2001. Production of burley in 2002 and 2003 has been reduced to less than 500 MT and acreage is not expected to increase, as cigarette consumption continues to decline.

Yields vary considerably depending on the farmer. The following table presents average yields per production season.

Average Tobacco Yields by type (MT/HA)

Type	CY 2001	CY 2002	CY 2003
Virginia	N/A	N/A	N/A
Burley	1.90	N/A	N/A
“Amarillo Parado”	1.31	1.24	1.26
“Chago Diaz”	1.54	1.45	1.48
“Piloto Cubano”	1.56	1.59	1.56

Source: INTABACO and industry sources.

Pest problems in dark and blond tobaccos are generally limited to blue mold and aphids. In 2003, these problems did not have an adverse impact on overall output, except on some plots of “Amarillo Parado” where no inputs were used. This year the weather conditions have followed a normal pattern and infections are not anticipated to be significant.

Prices

Producers of burley tobacco and of the dark "Piloto" and "Chago Diaz" receive good prices for their products, as a result of the steady demand for cigarettes and for good-quality cigars. However, while domestic prices in general have increased, the sharp devaluation of the Dominican peso has made domestic tobacco less expensive to manufacturers. Because of the lower quality "Amarillo Parado," its price continues to be considerably lower than other types. Average on-farm prices for the past four years are presented below:

Average On-Farm Price for Tobacco (RD$)

Type	CY 2001	CY 2002	CY 2003	CY 2004 4/
“Amarillo Parado”1/	400	450	748	760
“Chago Diaz” 2/	1,300	1,900	2,187	2,200
“Piloto Cubano” 2/	2,000	2,200	2,190	2,210
Burley 3/	N/A	N/A	3,200	3,750
Exchange rate RD$ per US$	17.20	17.50	27. 50	45.50 5/

1/ 60 Kg. Bags; 2/ 55 Kg. Bags; 3/ 50 Kg. Bags
4/ Preliminary
5/ The peso devaluated by over 20% in March-May 2003.
Source: INTABACO and industry sources.

The Dominica peso has devalued from an average of RD$27.50 per U.S. dollar in 2003 to around RD$45/US$1 in April 2004.

Exporters or processors who contract with farmers to supply their production needs have traditionally determined tobacco prices. At the present time, tobacco stock levels are coming down, but the weakening of the peso will keep prices low in dollar terms. The growers of burley tobacco and other dark air cured receive a contract price from the cigarette and cigar manufacturing companies.

Consumption

Consumption estimates for dark air and sun cured tobacco exclude plug tobacco (Andullos) and on-farm consumption, since it is considered a pre-harvest loss. Dark air and sun dried tobacco apparent consumption increased above prior estimates, as a result of efforts to discarding old, deteriorated stocks. This quantity is included as part of consumption in the production, supply, and demand table.

According to industry sources, the number of hand-made cigar companies continues to decline and reached 75 factories in 2003, down 35 percent from the number that operated during the cigar boom six years ago.

According to INTABACO's preliminary numbers, the total output of handmade cigars increased in 2003 to almost 243 million units, up from 192 million in 2002. Preliminary estimates for 2004 are not yet available, but exports are expected to be similar to 2003.

Preliminary estimates for cigarette consumption in 2003 were 3.42 billion units, up slightly from last year and almost the same to the 3.35 billion units consumed in 2000. A slight decrease in consumption is expected in 2004. The 2002-2003 decline was due to the Dominican economic crisis and subsequent devaluation of the peso. There is some anticipation that additional taxes will be applied to tobacco products, which if enacted, could further reduce demand.

INTABACO does not maintain official statistics on consumption. However, consumption estimates are presented below, reflecting the drop in cigarettes/cigar consumption and a modest increase in consumption of black tobacco for cigar production, including discarded stocks. Calendar 2003 data is not yet available.

Derived Consumption of Tobacco (MT dry)

Type	CY 2001	CY 2002	CY 2003 3/
Black Andullos 1/	N/A	880	915
Black On-farm 1/	N/A	21	23
Cigars and cigarettes 2/	N/A	6,875	7,000

1/ These are factored into pre-harvest losses. For that reason, they are not included in the PS&D table.
2/ Contracted price by the private sector. 3/ Preliminary estimates.
Source: INTABACO and industry sources.

Cigarette Wholesale Prices

Cigarette prices are presented for reference purposes:

Wholesale Cigarette Prices (Cartons [CT]-10 Packs, 20 Cigarettes Each)

Manufacturer/ Brand Name	Type	Price (RD$)/CT			
		April 2001	April 2002	April 2003	April 2004
E. Leon Jimenez					
Marlboro, reg. & light	Flue-cured/burley filter	184.41	184.41	218.00	284.90
Nacional, reg. & ment.	Flue-cured/burley filter	172.86	172.86	208.00	259.20
La Tabacalera					
Montecarlo & Belmont	Flue-cured/burley filter	170.00	170.00	170.00	259.20
Constanza (menthol)	Flue-cured/burley filter	170.00	170.00	170.00	259.20
Hilton	Flue-cured/burley filter	121.99	120.99	120.00	200.83
Palace	Flue-cured/burley filter	121.99	120.99	120.00	200.83
Casino & Cremas	Dark filter & non-filter	89.00	89.00	89.00	156.03

Source: Industry sources

Trade

The Dominican Republic continues to be one of the most important trading partners with the United States in tobacco (raw for processing and filler for cigar production). However, INTABACO reports indicate that in CY 2002 and again in 2003, tobacco exports from the Dominican Republic to the United States decreased, due to limited availability. Exports in 2004 are anticipated to remain at 2003 levels. Although this is not included in official trade data, the free trade zone operations show exports in 2003 of 4,345 MT, with a value of US$47.5 million. Principal export destinations are the United States and Puerto Rico.

Dominican cigar exports increased in total value and in unit price. The Dominican Republic imports tobacco from the United States into its free trade zones, manufactures cigars, and reexports them primarily to the United States. U.S. tobacco exports to the Dominican Republic surpassed US$63 million in CY 2003, placing the Dominican Republic among the top five importers of U.S. tobacco.

The United States supplies the vast majority of Dominican tobacco imports. Imports of dark tobacco from the United States continued to decrease during 2003, as a result of excessive inventories carried over from previous years. In spite of this, there is a continued demand for high-quality tobacco and wrapper. Most of the imports are used as wrapper for cigar manufacturing in the free trade zones and then re-exported. In 2003, the Dominican Republic imported over 2,000 MT of dark tobacco wrappers from the United States.

The Export and Investment Center (CEI-RD) statistics indicate that about 80 percent of cigar exports were to the United States, while only ten percent of the tobacco exported by the free trade zones returned to the United States. CEI-RD data show the major destinations of Domestically produced tobacco in 2003 as the United States (66%) and Spain (11%). The free trade zone operations, on the other hand, reported for 2003 a total of 4,335 MT of tobacco exported. A summary of the local trade data for the last three years follows:

Dominican Tobacco / Cigar Exports

	CY 2001		CY 2002		CY 2003	
	Quantity (MT)	Value (U$M)	Quantity (MT)	Value (U$M)	Quantity (MT)	Value (U$M)
Cigars 1/	256.3	67.5	188.6	208.8	243.2	250.8
Tobacco (FTZ)	5,900	77.8	4,100	62.0	4,335	47.50
Tobacco (national)	8,300	12.1	4,200	6.4	4,859	7.00
TOTAL 2/	4,522	157.4	8,300	277.2	9,194	305.3

1/ Million units. Approximately 80 percent is free trade zone production.
2/ These totals are indicative since free trade zone production is not considered part of national production.
Source: INTABACO and independent sources.

According to INTABACO, in 2003 raw tobacco exports increased, while average unit prices remained at high levels. With an average 2004 harvest anticipated, export volumes of raw, processed and manufactured tobacco are expected to remain at current levels.

The two cigarette manufacturing companies in the Dominican Republic are E. Leon Jimenez, S.A. and La Tabacalera, formerly Compania Anonima Tabacalera. The first is a private company associated with Phillip Morris, Inc., and is the leading cigarette manufacturing company, accounting for over 85 percent of the cigarette market. The La Tabacalera is owned partly by the Dominican government, with a new Spanish/Dominican private-sector partner, controlling the rest. The major ingredients in cigarette manufacturing are flue-cured or Virginia and Burley. Currently, there is no flue-cured tobacco produced locally, so most of the imports in 2003 (1,470 MT) came from South America and Northern Africa.

Changes in the market place, such as health issues, higher taxes for cigarettes, and the weakening of the peso, have reduced the market size and no actual growth has been observed in recent years. Changes in the marketing strategies as the new company consolidates its position in the market have not shown any results. Both companies import most of their tobacco and inputs from the United States, which include filter tow, cigarette paper and packing materials.

As part of the special arrangements with their U. S. partners, the brands they produce under license are manufactured exclusively for local consumption. Very small quantities of other cigarettes are exported. GODR sources indicate that about 3 MT of non-FTZ cigarettes (dark tobacco) were exported last year, the majority of which went to the European Union.

Stocks

Industry contacts indicate that stocks of dark tobacco have been reduced over the past three years, because of a government effort to discard old, deteriorated stocks and exports of lower-quality tobacco. The remaining stocks are of better quality, which require prolonged storage periods (the aging process) in order to produce high-quality cigars.

Policy

The Secretariat of Agriculture, through INTABACO, sells certified seed to small tobacco farmers, germinated planting material for replanting, and some inputs. It also issues phytosanitary certificates for exports and keeps track of the sector statistics. Inputs are no longer subsidized. According to the Agriculture Secretariat operating plan, about one percent of the Agricultural Credit Bank’s US$60 million budget was allocated to the tobacco sector.

Subsidies

Occasionally, tobacco farmers get into financial difficulties and request government assistance. In these situations, the central government has sometimes purchased tobacco from farmers through the National Agricultural Bank. This tobacco is often stored for long periods of time and then sold at market value or discarded.

Tariffs

The selective tax on locally produced cigarettes is set at 23 percent. In addition, there is a 12 percent VAT, which brings the total tax to 35 percent. Tobacco and tobacco products imports are subject to the following tariffs:

Description	Tariff Rate
Basic Tariff**:**	
For raw tobacco	15 percent of C+F value
For semi-processed tobacco	20 percent of C+F value
For tobacco wastes	15 percent of C+F value
For cigars and cigarettes	30 percent of C+F value
For all other types	30 percent of C+F value
Other applicable taxes**:**	
Selective surcharge	30 percent of C+F value
Value Added Tax	12 percent of C+F value

Law 346 assesses a 5 percent *ad valorem* tax on all material used for re-export.

Under the World Trade Organization Uruguay Round agreement, the Dominican Republic bound its maximum tariffs for most agricultural commodities at 40 percent. Under the new DR-CAFTA agreement (ratification pending from both, the United States and Dominican Governments), tariffs will be eliminated in 15 years.

Marketing

In 2003, marketing channels for most dark air and sun cured tobacco are as follows: Out of total production, producers or producer associations sold about 26 percent to brokers, 14 percent to independent packers, 25 percent to the exporters, and 25 percent to the Cigar Factories in and outside the free trade zones. The brokers in turn sold about 10 percent to the cigar factories and the rest to the exporters. Exporters handled about 66 percent of the production. Some companies involved in the cigar manufacture contract with producers at set prices. The buyer finances the entire operation charging no interest for the advances made to the producer during the five-month growing period.

Marketing channels for burley tobacco are different. There are only two cigarette producers. The manufacturers contract with tobacco producers for desired quantities. The manufacturers generally finance the entire operation in order to guarantee supplies. As an alternative and depending on local and international prices, the manufacturers source additional needs from foreign markets, as it is currently the case with flue-cured, burley and some oriental tobacco.

Homogenized sheets are neither manufactured nor used in the Dominican cigarette or cigar manufacture. The growth of the cigar manufacturing industry in the free zone areas and the specialized personnel available at acceptable costs have been important elements in the expansion of U.S. tobacco exports to the Dominican Republic. However, future market opportunities for U.S. exporters of dark tobacco will hinge on the success or failure of maintaining good quality tobacco production, processing and specialized labor at acceptable wage levels.

STATISTICAL DATA

PSD Table

Country Dominican Republic
Commodity Tobacco, Unmfg., Total (HA)(MT)

	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [	USDA Official	Estimate [	USDA Official	Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Area Planted	9200	9200	7350	7350	0	7300	(HA)
Beginning Stocks	4461	4461	4361	4361	3911	3911	(MT)
Farm Sales Weight Prod	16000	16000	14400	14400	0	14450	(MT)
Dry Weight Production	12700	12700	11500	11500	0	11560	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	470	470	540	540	0	890	(MT)
TOTAL Imports	470	470	540	540	0	890	(MT)
TOTAL SUPPLY	17631	17631	16401	16401	3911	16361	(MT)
Exports	5500	5500	4300	4300	0	4860	(MT)
Dom. Leaf Consumption	7300	7300	7650	7650	0	6550	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	470	470	540	540	0	890	(MT)
TOTAL Dom. Consumpti	7770	7770	8190	8190	0	7440	(MT)
TOTAL Disappearance	13270	13270	12490	12490	0	12300	(MT)
Ending Stocks	4361	4361	3911	3911	0	4061	(MT)
TOTAL DISTRIBUTION	17631	17631	16401	16401	0	16361	(MT)

PSD Table

Country **Dominican Republic**

Commodity **Unmfg.,Dark Air & Sun Curec** (HA)(MT)

	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [	DA Official	Estimate [	DA Official	Estimate [New]	
Market Year Begin		01/2002		01/2002		01/2002	MM/YYYY
Area Planted	0	9100	0	7100	0	7150	(HA)
Beginning Stocks	0	2311	0	2061	0	1461	(MT)
Farm Sales Weight Prod	0	15750	0	12750	0	12900	(MT)
Dry Weight Production	0	12600	0	10200	0	10300	(MT)
U.S. Leaf Imports	0	0	0	0	0	0	(MT)
Other Foreign Imports	0	0	0	0	0	0	(MT)
TOTAL Imports	0	0	0	0	0	0	(MT)
TOTAL SUPPLY	0	14911	0	12261	0	11761	(MT)
Exports	0	5500	0	4300	0	4860	(MT)
Dom. Leaf Consumption	0	7350	0	6500	0	6500	(MT)
U.S. Leaf Dom. Consum.	0	0	0	0	0	0	(MT)
Other Foreign Consump.	0	0	0	0	0	0	(MT)
TOTAL Dom. Consumpti	0	7350	0	6500	0	6500	(MT)
TOTAL Disappearance	0	12850	0	10800	0	11360	(MT)
Ending Stocks	0	2061	0	1461	0	401	(MT)
TOTAL DISTRIBUTION	0	14911	0	12261	0	11761	(MT)

PSD Table

Country Dominican Republic

Commodity Tobacco, Mfg., Cigarettes (MIL PCS)

	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [	A Official	Estimate [	A Official	Estimate [New]	
Market Year Begin		01/2002		01/2003		01/2004	MM/YYYY
Filter Production	3517	3420	3517	3430	0	3500	(MIL PCS)
Non-Filter Production	33	32	33	32	0	30	(MIL PCS)
TOTAL Production	3550	3452	3550	3462	0	3530	(MIL PCS)
Imports	0	0	0	0	0	0	(MIL PCS)
TOTAL SUPPLY	3550	3452	3550	3462	0	3530	(MIL PCS)
Exports	0	0	0	0	0	0	(MIL PCS)
Domestic Consumption	3550	3452	3550	3462	0	3530	(MIL PCS)
TOTAL DISTRIBUTION	3550	3452	3550	3462	0	3530	(MIL PCS)

PSD Table

Country Dominican Republic

Commodity Mfg.,Cigar,Cheroot,Cigarell (1000 PCS)

	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate [	A Official	Estimate [	A Official	Estimate [New]	
Market Year Begin		01/2002		01/2002		01/2002	MM/YYYY
Production	0	192000	0	246000	0	245000	(1000 PCS)
Imports	0	0	0	0	0	0	(1000 PCS)
TOTAL SUPPLY	0	192000	0	246000	0	245000	(1000 PCS)
Exports	0	189000	0	243000	0	242000	(1000 PCS)
Domestic Consumption	0	3000	0	3000	0	3000	(1000 PCS)
TOTAL DISTRIBUTION	0	192000	0	246000	0	245000	(1000 PCS)